



THE BUSINESS PLAN...

The Technology of Entrepreneurship Education

Banks and other lending agencies often ask for a business plan to determine whether your business idea has promise. But many entrepreneurs never write out their plans, for a number of reasons, mostly that they are too busy or don't really know how.

For entrepreneurship educators, the business plan is the **technology of preparation** for students to run a business. It forces the writer to make choices and decisions, and to look at the outcomes of various approaches to running the business. A business plan will be quite different for a person expecting to borrow money from the bank versus a grade school student creating a plan for a money-making project. And there are many levels in between. But in spite of the difference in sophistication, many of the same questions must be answered.

- What is the business idea?
- What is our product or service?
- Who will buy it?
- Where should we be located?
- How can we attract customers?
- What is our competition?
- How will the business be managed?
- What is required to operate the business?
- How many customers can we expect?
- What are our product costs?
- What other costs will we have?
- What prices will we charge?
- How much profit can we expect to make?
- How much money will be needed to start the business
- Is this a good business opportunity? Why?

The Good Ole Lemonade Stand

The Business Plan Unit of PACE (Level 1) provides us with an example of how young students would answer these questions in planning a lemonade stand. It seems that Jonathon, Kathy and Joey wanted to make money during their tow-month summer vacation, and talked Jonathon's mother into helping. Here is how they decided about this financial opportunity.

Their plan for the business first covered all the questions above. Then it was time to find out about how much profit they could make. Investors want to know the answers to two major questions:

- How much profit can the business make?
- How much money do you need to get the business started and to keep it going until you make a profit?

Projected Income Statement...The decisions you make about your business will determine whether you make a profit. This financial page forces you to make decisions:

1. How many customers do you expect to attract during the 2 months? How much will they buy?

Answer: We will count on an average of 5 customers an hour. We will be open 6 hours a day for 2 months (60 days). Therefore we can expect 1,800 customers over a 2-month period.

If they serve 6-ounce cups, the kids will serve 10,800 ounces in two months, or 180 ounces per day. Since there are 128 ounces per gallon, and the kids will serve 180 ounces of lemonade per day, they will sell the customers will buy approximately 1.41 gallons of lemonade a day, or 84.6 gallons in 2 months.

In addition they expect to sell 5 gallons in bulk over the 2 months, or a total of 89.6 gallons.

(PACE is a competency-based entrepreneurship curriculum, developed by the Consortium for Entrepreneurship Education, and available from Ohio State University, 614-292-4277, or contact Cherie Jarvis at Jarvis.2@osu.edu.)

How much will it cost to make that amount of lemonade?

Answer: After shopping around for the best prices, they found it would cost \$7.39 per gallon:

24 lemons @ \$.25	\$6.00
1 lb sugar @ \$.40	.40
21 6-ounce cups @ \$.04	.84
food coloring and napkins	.10
1/2 lb. Ice @ \$.10	<u>.05</u>
Total Cost per Gallon	\$7.39

How much will you need to charge for lemonade?

Answer: With 1 gallon of lemonade, we can fill 21 6-ounce cups (128 oz divided by 6 = 21.3 cups). It will cost \$.352 to make a 6-ounce cup of lemonade (\$7.39 divided by 21 cups = \$.352 per cup).

They found that nearby competitors were charging between 50 cents for a 12 ounce soda and 89 cents for a 12 ounce lemonade. They had hoped to charge \$.35 for a 6-oz cup. But since it costs 35 cents to make a cup without adding expenses and profit, they decide to charge 60 cents a cup.

What will their total sales be at a selling price of 60 cents per cup?

Answer: (30 cups per day X 60 days X \$.60 per cup = \$1080)
plus (5 gallons @ \$8.00 per gallon = \$40). Total sales will be \$1,120

How much will the lemonade ingredients and other items cost?

Answer: (89.6 gallons X \$7.39 per gallon = \$662.14) Cost of goods sold = \$662.14

What is their gross profit?

Answer: ("Estimated sales" = \$1120 minus "Cost of goods sold" = \$662.14) This leaves \$457.86 for the "Gross Profit".

What are their operating expenses?

Answer: They plan to pay a small wage to the person working the stand (50 cents per hour). They will need advertising posters for the stand. They estimate operating costs at (360 hours X \$.50 = \$180) plus posters (4 posters @ \$1.00 = \$4.00). Total operating expenses = \$184.00

How much is their net profit?

Answer: After subtracting the operating expenses from the gross profit, they will have \$273.86. ("Gross profit" = \$457.86 minus "Operating expenses" = \$184.00 equals \$273.86 "Net Profit")

QUESTIONS FOR DISCUSSION

1. Discuss the math problems presented in considering whether your business idea will make a profit.
2. How would the profit be different if they decided to use half as many lemons in their recipe for lemonade?
3. What would happen to the profit if they were able to sell the lemonade for \$1.00 per cup?
4. What price do you think would be the best for them to charge for your lemonade?
5. What happens if their customer estimate is wrong and they only have half as many lemonade customers?
6. Can you make a similar financial analysis for a business selling homemade jewelry, doing car repairs, selling flowers, selling breakfast items before school, or selling your computer repair services to teachers and fellow students?
7. How would the "Cost of Goods Sold" be changed if you had to account for the value of your inventory left over at the end of your accounting period? They assumed that all the lemonade would be sold in this example.